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C O N F I D E N T I A L SECTION 01 OF 02 CARACAS 000207

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E.O. 12958: DECL: 02/12/2019

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SUBJECT: CENTRAL BANK STATISTICS COME UNDER ATTACK FROM  
BOTH SIDES

REF: 2008 CARACAS 493

Classified By: Economic Counselor Darnall Steuart for reasons 1.4 (b)  
and (d).

11. (C) Summary: In a recent speech, President Chavez claimed the Central Bank of Venezuela's (BCV) inflation statistics did not properly take into account products and services subsidized by the government. He called on his Minister of Finance and a member of the BCV's board to develop a measurement system "adequate to a socialist economy." Prior to Chavez's speech, an opposition economist with strong ties to BCV staff alleged the BCV was under extreme pressure to manipulate various statistics. Shortly after Chavez's speech, the BCV published a notice that included a defense of its statistical methodologies. We would not be surprised if pressure on BCV technical staff to manipulate data increases this year as the economy worsens and will be on the lookout for any such indications. End summary.

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Chavez Sees Upward Bias in Inflation Figures  
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12. (SBU) In a February 6 speech devoted largely to touting investment projects and government-provided credit, President Chavez questioned the methodology employed by the BCV to measure inflation. He claimed the BCV's methodology did not account for free health services provided by Barrio Adentro, one of the social "missions" created by the government of the Bolivarian Republic of Venezuela (GBRV). Chavez also argued the BCV's figures for food inflation were too high as they did not account for subsidized and at-cost groceries provided by Mercal, another mission, and PDVAL, a food production and distribution subsidiary of state oil company PDVSA. Chavez claimed 90 percent of the population had access to Barrio Adentro services and 80 percent to Mercal and PDVAL. Chavez specifically called out Minister of Finance Ali Rodriguez and BCV board member Jose Khan, urging them to "work actively" to develop "a measurement system adequate to the socialist system that is being born." (Note: While Chavez has complained before about the way inflation is measured, he has not before, to post's recollection, ordered his appointees so pointedly to change the system. End note.)

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Opposition Economist Alleges Pressure to Manipulate Data  
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13. (C) In a January 27 press conference, Jose Guerra, an opposition economist and former head of the BCV's economic research department, alleged the BCV was under extreme pressure to alter inflation, balance of payments, and GDP statistics, such that these BCV numbers might soon no longer be reliable. He told Econoff his sources were former colleagues still at the BCV. Another former BCV economist told Econoff that as long as Luis Rodriguez, the long-time head of the BCV's statistics department, remained in place, she believed the statistics department would resist political pressure. Both she and Guerra noted Mercal stores were already included in the BCV's monthly survey; Guerra stated Mercal goods comprised 12 percent of the food category in the survey, a number he claimed was higher than it should be.

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The BCV Responds  
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14. (U) On February 9, the BCV published in local newspapers a notice about the world economic crisis and the BCV's response. The notice contained standard GBRV language, including a jab at "neoliberal" economics and the claim that the crisis had impacted Venezuela less than other countries thanks to Venezuela's economic and social policies and savings in funds such as the National Development Fund. It also contained a spirited, three paragraph defense of the BCV's statistical methodology, specifically citing the national consumer price index (CPI). Some opposition economists such as Guerra claimed the notice was in part a response to President Chavez's criticism of BCV methodology.

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Comment  
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15. (C) Local economists do not think the BCV's numbers are perfect, especially as regards to the balance of payments, where the BCV relies on PDVSA's figures for the dollar value of petroleum exports and does not take into account certain defense imports. But in general, to date, the BCV has retained its institutional reputation of competence at the technical level (especially relative to other public entities) and seems to have resisted politically driven changes in its statistical methodologies. The 2008 roll-out of the national consumer price index (reftel), for example, does not appear to have led to biased results, as some had feared. Chavez's focus on inflation numbers, and particularly the food and health categories, indicates their political sensitivity. We can only believe the BCV's political leadership will come under increasing pressure to produce more positive numbers as the economic situation worsens. We will be on the lookout for indications that such pressure is leading to the manipulation of inflation statistics, even though we doubt a more "socialist" measurement system would fool the Venezuelan consumer. End comment.

CAULFIELD